Report for: Pensions Committee and Board 18 January 2018

Item number: **11**

Title: Pension Fund Quarterly Update

Report authorised by: Clive Heaphy, Chief Finance Officer (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions
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Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. To report the following in respect of the three months to 30th September 2017:
- Funding Level Update
- Investment asset allocation
- Investment performance
- Investment Update

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the three months to 30th September 2017 is noted.

4. Reason for Decision

4.1. N/A

5. Other options considered

5.1. None

6. Background information

6.1. This update report is produced on a quarterly basis. The Local Government Pension Scheme Regulations require the Committee and Board to review investment performance and sections 11, 12 and 13 of this report provide the information for this. Appendix 1 shows the targets which have been agreed with the fund managers. The report covers various issues on which the Committee and Board have requested they receive regular updates.

7. Contribution to Strategic Outcomes

7.1. Not applicable

8. Statutory Officers comments (Chief Operating Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. The CFO (S151 Officer) has been consulted on this report and there is no direct financial impact from the contents of this report.

Legal Services Comments

8.2. The Council as administering authority for the Haringey Pension Fund must periodically review the suitability of its investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with its overall investment strategy.

8.3. All monies must be invested in accordance with the Investment Strategy and members of the Committee should keep this duty in mind when considering this report and take proper advice on the matter.

Comments of the Independent Advisor

8.4. The Quarter July to September 2017 saw yet further advances in Equity markets across the world. Despite severe tensions between the United States and North Korea markets continued to be supported by favourable monetary policy approaches by the world's major Central Banks and were buoyed by positive business and economic indicators in the United States, Europe, Japan and Emerging Markets.

8.5. The US S&P 500 index reached yet further record highs during the Quarter supported by generally good economic news including positive corporate results/earnings, increased investment by businesses, moderate expansion in household spending and an unemployment rate for September 2017 of 4.2% the lowest since before the beginning of the financial crisis which began in 2007. US markets were also supported hopes of a major reduction in the Corporate Tax rate.

8.6. Economic indicators indicated a continued and broad based recovery in the Eurozone. Second Quarter 2017 GDP figures (released in August 2017) indicated a broader rather than German led recovery with Spain, France and the Netherlands all performing increasingly positively. Eurozone unemployment fell to 8.9% in September 2017 its lowest level since early

2009. European equities experienced another clearly positive Quarter between July and September 2017.

8.7. Japanese equity markets (as demonstrated by the Nikkei 225 index) had a positive Quarter. Japanese companies reported solid earnings with corporate profits improving. The domestic economy appeared strong, for example, with positive consumer spending. The announcement of a snap general election by Prime Minister Shinzo Abe also had a positive effect on markets. Emerging Markets, and in particular Latin America, were also positive supported by both corporate earnings and economic fundamentals. Lower interest rates and higher commodity prices benefitted Latin American equities.

8.8. UK equities also experienced a positive Quarter despite continued uncertainty (and confusion) over “Brexit.” The UK economy evidenced some weakness in both consumer and business sentiment but the official unemployment rate remained low at 4.3% (for July to September, seasonally adjusted). Inflation (as measured by the official version of the Consumer Price Index) was 2.8% in September 2017 which is clearly above the Government’s inflation target of 2%.

8.9. As in the previous (April to June) Quarter the main (10 year) Government bond yields (US, UK, Germany and Japan) changed little over the July to September Quarter. The yield on the 2-year UK Gilt (which is sensitive to interest rate expectations) ended the Quarter on 30 September at 0.47% (compared to 0.36% at 30 June). A clear increase in yield occurred following the release on 14 September 2017 of the Minutes of the September meeting of the Bank of England’s Monetary Policy Committee which included the statement “…..some withdrawal of monetary stimulus is likely to be appropriate over the coming months in order to return inflation sustainably to target.” thus clearly indicating a likely future increase in interest rates. Such an increase did subsequently occur when at its meeting on 1 November 2017 the Monetary Policy Committee voted 7 to 2 to increase the Base rate by 0.25% to 0.5%.

8.10. The United States Federal Reserve, the world’s most important Central Bank, tightened Monetary Policy at its September meeting and indicated further moderate tightening going forward. At its meeting held on 19-20 September 2017 the Federal Open Markets Committee tightened US Monetary policy by voting to no longer reinvest all principal payments from its bond and debt holdings. This was a fundamental decision as in contrast to the last ten years of huge expansion the Balance Sheet of the Federal Reserve will now in the words of its Chair, Janet Yellen, “decline gradually and predictably” (quoted from transcript of Chair Yellen’s press conference 20 September 2017).

8.11. While the July and September meetings of the Federal Reserves’ Federal Open Markets Committee maintained the Target Range for the Federal Funds Rate (in effect the US Official Interest Rate) at 1 to 1.25% official press releases issued following the meetings held on both 25-26 July and 19-20 September stated that “the Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate." This comment was proved justified when the Federal Open Markets Committee increased the Federal Funds rate by another 0.25% at its meeting of 12-13 December 2017. Notwithstanding this further "tightening" of Monetary Policy by the US Federal Reserve its monetary stance remains "loose" in historic terms.

8.12. With regard to the Haringey Fund there was a 2.6% increase in the value of the Fund of £34m over the Quarter from £1,310m to £1,344m. More importantly the indicative Funding level at 30 September 2017, as calculated by the Fund Actuary, has improved to 86.5% compared with 85.2% at 30 June 2017. The indicative Funding level of 86.5% represents a clear improvement since the last full Actuarial Valuation (as at 31 March 2017) when the Funding level was 79.1%. A detailed commentary on the performance of the Fund during the July to September 2017 Quarter is provided in the Officer commentary at Section 13 of this report.

8.13. As stated at Section 15 of this report Aviva have yet to request any of the £50m funding for Long Lease Property approved by the former Pensions Committee at its meeting on 11 April 2016. Therefore, the Head of Pensions and Independent Advisor have agreed that they should seek a meeting with Aviva to discuss the present situation and Aviva's expectations as to when they will call for funding.

Equalities

8.14. The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Council to participate. There are no impacts in terms of equality from the recommendations contained within this report.

9. Use of Appendices

9.1. Appendix 1: Investment Managers' mandates, benchmarks and targets.

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. Funding Position Update

11.1. At the most recent valuation 31 March 2016, the Fund had a funding position of 79.1% - meaning that the fund's investment assets were sufficient to pay 79.1% of the pension benefits accrued at that date.

11.2. The Fund's Actuary, Hymans Robertson LLP, has calculated an indicative funding position update for 30 September 2017, and this showed an improvement to an 86.5% funding level: the increase being mainly attributable to investment returns. This position was improved slightly from 30 June 2017 at 85.2%.

11.3. The 79.1% funding level as at 31 March 2016 corresponded to a net deficit of £277m, which has decreased to £206m as at 30 September 2017 when the indicative funding level was 86.5%.

12. Portfolio Allocation Against Benchmark

12.1. The value of the fund increased by £34.5m million between June and September 2017. The equity, private equity, and multi asset credit portfolios performed above benchmark, whereas the infrastructure debt, property and renewable energy portfolios were below benchmark.

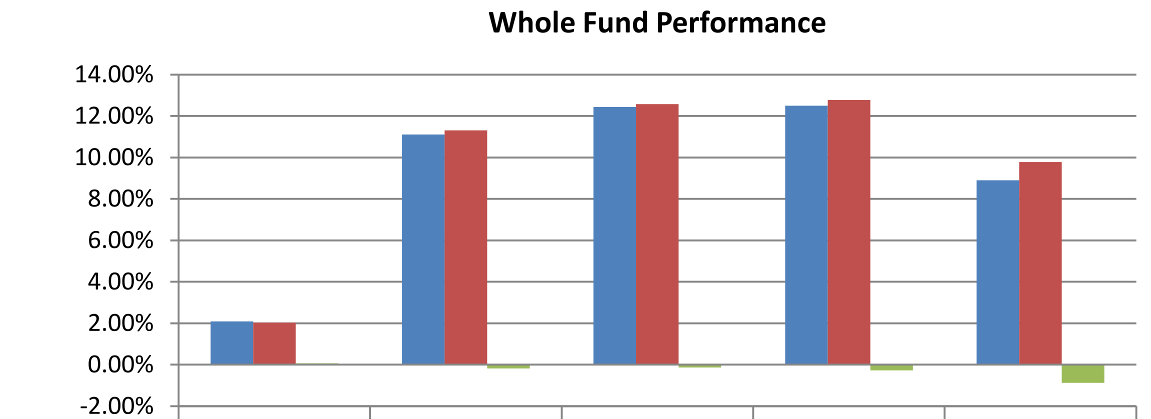
12.2. The equity allocation exceeds target by 10.62%. This is due in part to a strongly performing year for equities meaning that this portion of the portfolio has grown disproportionately compared to other asset classes. The infrastructure debt and private equity, portfolios continue to be funded as the managers make capital calls when suitable assets become available for acquisition. As these, and the new property and renewable energy mandates are funded, the equity portfolio will fall back in line with the strategic allocation, however it should be noted that this may take several years to fully complete.

Total Portfolio Allocation by Manager and Asset Class

	Value 31.03.2017 £'000	Value 30.06.2017 £'000	Value 30.09.2017 £'000	Allocation 30.09.2017 %	Strategic Allocation %	Variance %
Equities						
UK	151,526	139,345	107,047	7.96%	6.60%	1.36%
North America	222,584	200,198	156,434	11.64%	9.60%	2.04%
Europe	74,404	71,219	52,912	3.94%	3.20%	0.74%
Japan	32,146	33,378	24,845	1.85%	1.50%	0.35%
Asia Pacific	33,853	31,981	24,041	1.79%	1.50%	0.29%
Emerging Markets	138,965	123,444	120,292	8.95%	7.80%	1.15%
Global Low Carbon Tgt	214,432	235,450	363,086	27.01%	22.30%	4.71%
Total Equities	**867,910**	**835,015**	**848,657**	**63.12%**	**52.50%**	**10.62%**
Bonds						
Index Linked	**183,837**	**179,349**	**177,922**	**13.23%**	**15.00%**	**-1.77%**
Property						
Aviva				**0.00%**	**5.00%**	**-5.00%**
CBRE	**90,845**	**97,405**	**94,556**	**7.03%**	**7.50%**	**-0.47%**
Private equity						
Pantheon	**54,278**	**53,139**	**54,416**	**4.05%**	**5.00%**	**-0.95%**
Multi-Sector Credit						
CQS	**50,467**	**89,727**	**91,088**	**6.78%**	**7.00%**	**-0.22%**
Infrastructure Debt						
Allianz	**27,814**	**36,038**	**35,918**	**2.67%**	**3.00%**	**-0.33%**
Renewable Energy						
CIP	**0**	**0**	**0**	**0.00%**	**2.50%**	**-2.50%**
Blackrock	**0**	**5,985**	**8,248**	**0.61%**	**2.50%**	**-1.89%**
Cash & NCA						
Cash	**33,942**	**13,280**	**33,637**	**2.50%**	**0.00%**	**2.50%**
Total Assets	**1,309,093**	**1,309,938**	**1,344,442**	**100%**	**100%**	**0.00%**

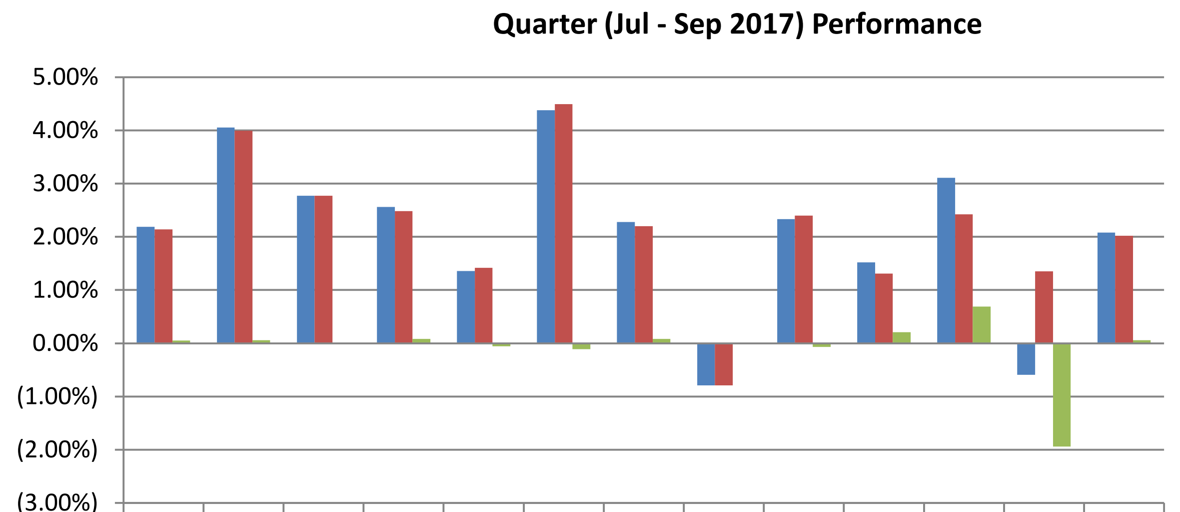
13. Investment Performance Update: to 30th September 2017

13.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter July to September 2017 and for one, three and 5 years for the whole of Fund.



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception
Return	2.08%	11.11%	12.43%	12.50%	8.90%
Benchmark	2.02%	11.30%	12.57%	12.78%	9.78%
(Under)/Out	0.06%	(0.19%)	(0.14%)	(0.28%)	(0.88%)

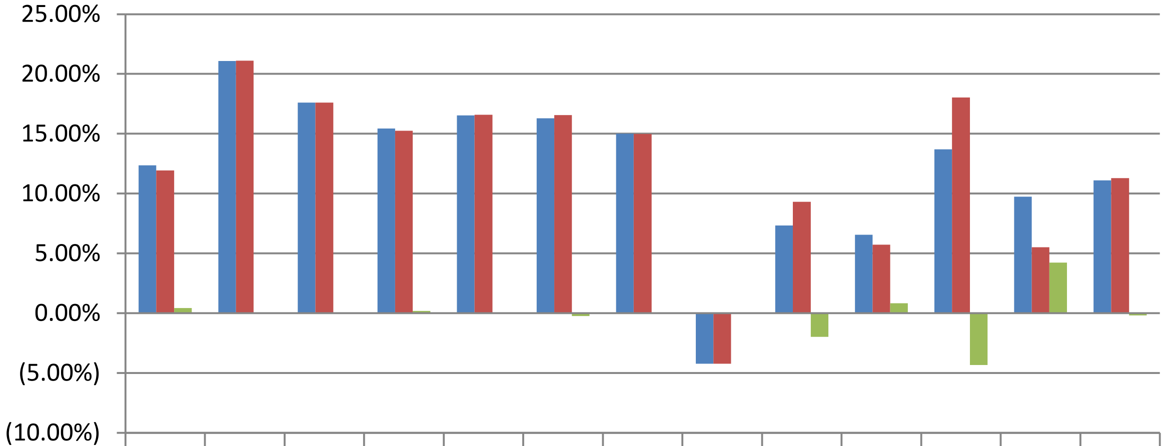
13.2. The Fund returned 2.08% in the quarter: roughly in line with the benchmark of 2.02%. Emerging Market and European equities showed the strongest performance over the quarter with returns of over 3%. The Private Equity portfolio also had a return in excess of 3% in the quarter.



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	2.19%	4.05%	2.77%	2.56%	1.36%	4.38%	2.28%	(0.79%)	2.33%	1.52%	3.11%	(0.59%)	2.08%
Benchmark	2.14%	3.99%	2.77%	2.48%	1.42%	4.49%	2.20%	(0.79%)	2.40%	1.31%	2.42%	1.35%	2.02%
(Under)/out	0.05%	0.06%	0.00%	0.08%	(0.06%)	(0.11%)	0.08%	0.00%	(0.07%)	0.21%	0.69%	(1.94%)	0.06%

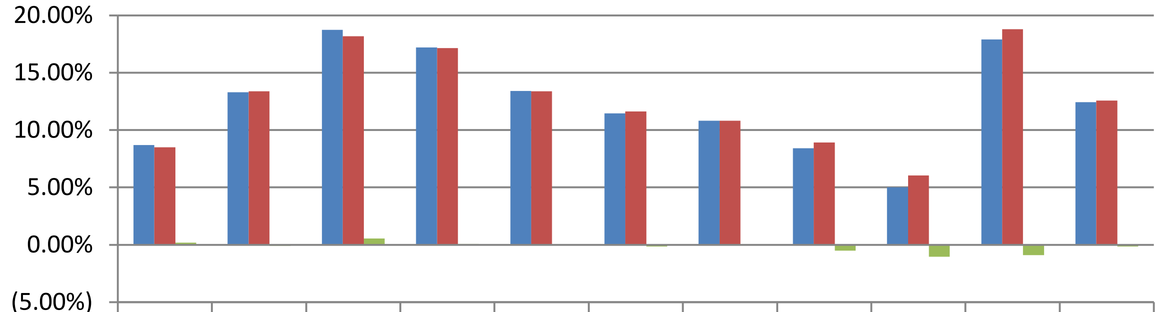
13.3. Over the last 12 months the Fund returned 11.11% and underperformed benchmark of 11.30% by 0.19%. Three and five year underperformance is 0.14% and 0.28% respectively. As much of the fund is invested passively, one would expect returns to be largely in line with benchmark. The Fund has benefitted from its overweight position in equities over the past five years.

One Year Performance

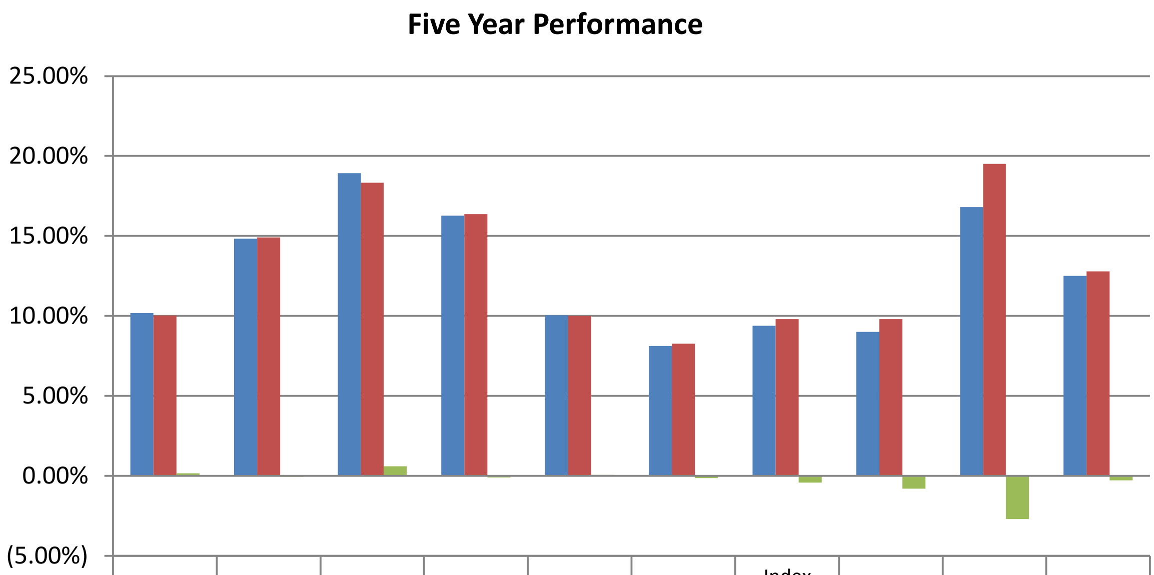


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	12.36%	21.08%	17.60%	15.43%	16.54%	16.30%	15.00%	(4.23%)	7.33%	6.56%	13.71%	9.74%	11.11%
Benchmark	11.94%	21.12%	17.61%	15.25%	16.59%	16.55%	14.99%	(4.23%)	9.31%	5.72%	18.04%	5.50%	11.30%
(Under)/out	0.42%	(0.04%)	(0.01%)	0.18%	(0.05%)	(0.25%)	0.01%	0.00%	(1.98%)	0.84%	(4.33%)	4.24%	(0.19%)

Three Year Performance



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Total Fund
Return	8.70%	13.30%	18.73%	17.19%	13.42%	11.46%	10.81%	8.41%	5.01%	17.89%	12.43%
Benchmark	8.51%	13.38%	18.17%	17.13%	13.37%	11.62%	10.81%	8.91%	6.05%	18.80%	12.57%
(Under)/out	0.19%	(0.08%)	0.56%	0.06%	0.05%	(0.16%)	0.00%	(0.50%)	(1.04%)	(0.91%)	(0.14%)

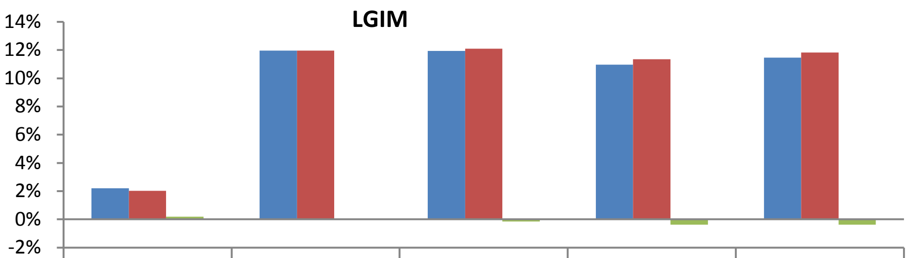


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	10.18%	14.83%	18.93%	16.26%	10.05%	8.12%	9.39%	9.00%	16.81%	12.50%
Benchmark	10.02%	14.90%	18.33%	16.36%	10.00%	8.26%	9.81%	9.81%	19.51%	12.78%
(Under)/out	0.16%	(0.07%)	0.60%	(0.10%)	0.05%	(0.14%)	(0.42%)	(0.81%)	(2.70%)	(0.28%)

FUND MANAGER PERFORMANCE

<u>Legal & General Investment Management (LGIM)</u>

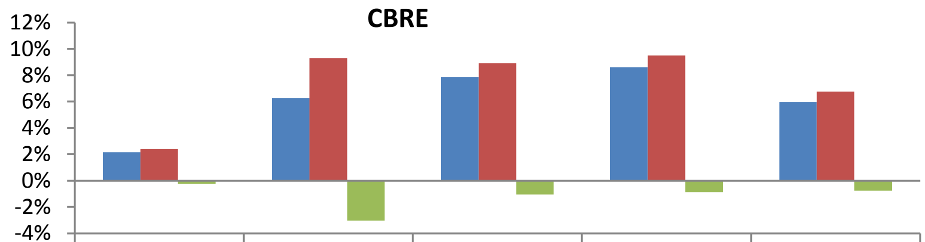
13.4. Legal and General returned 2.20% this quarter and slightly outperformed composite benchmark of 2.02%.



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (May 12)
Return	2.20%	11.96%	11.93%	10.97%	11.46%
Benchmark	2.02%	11.97%	12.09%	11.35%	11.83%
(Under)/Out)	0.18%	(0.01%)	(0.16%)	(0.38%)	(0.37%)

CBRE

13.5 The manager saw a positive total return of 2.16% in the quarter but underperformed benchmark of 2.40%. CBRE lags behind benchmark over 1, 3, and 5 years too, as well as since portfolio inception: however this position is improving.

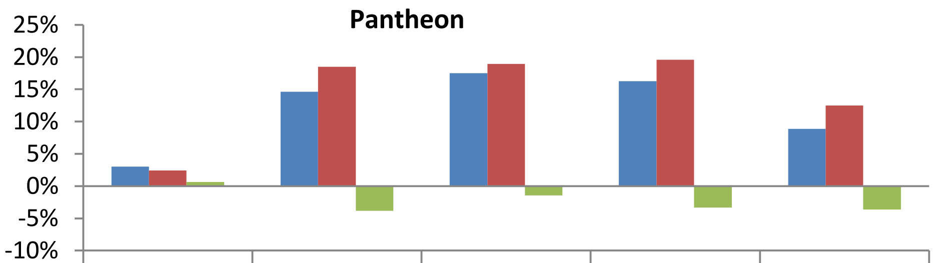


	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (Mar 03)
Return	2.16%	6.27%	7.87%	8.60%	5.99%
Benchmark	2.40%	9.31%	8.91%	9.49%	6.76%
(Under)/Out	(0.24%)	(3.04%)	(1.04%)	(0.89%)	(0.77%)

13.6 The relative performance of the property portfolio was affected by two European funds that suffered significant loss, the final holdings in which were sold earlier in 2017: the effects of this will still show a lag on performance for some time to come.

Pantheon Private Equity

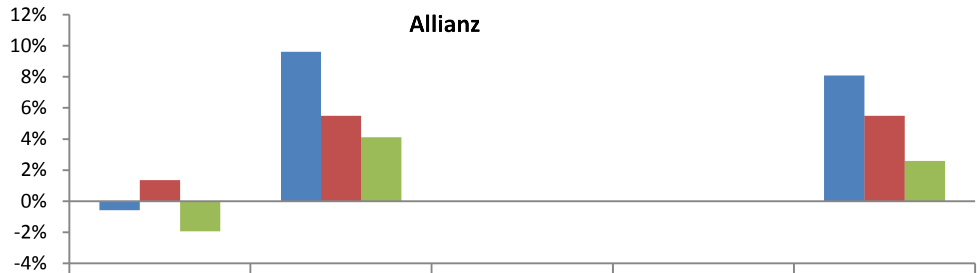
13.7 Pantheon Private Equity outperformed their benchmark by 0.62%. Over all other time horizons measured below the manager is showing a negative return compared to benchmark, however, in absolute terms, returns of over 15% over the past five years have added significantly to the fund's asset base and overall performance metric.



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (May 07)
Return	3.04%	14.63%	17.48%	16.26%	8.88%
Benchmark	2.42%	18.47%	18.94%	19.60%	12.51%
(Under)/Out	0.62%	(3.84%)	(1.46%)	(3.34%)	(3.63%)

Allianz Infrastructure Debt

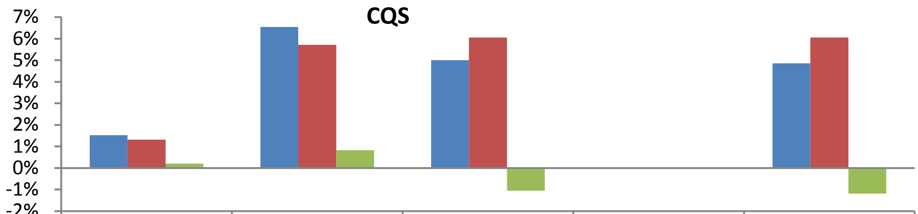
13.8 Allianz has returned -1.94% against benchmark in the quarter. However, the manager is still significantly ahead of benchmark in the one year period and since inception.



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (Dec 14)
Return	-0.59%	9.61%			8.10%
Benchmark	1.35%	5.50%			5.50%
(Under)/Out	(1.94%)	4.11%	0.00%	0.00%	2.60%

CQS Multi Sector Credit

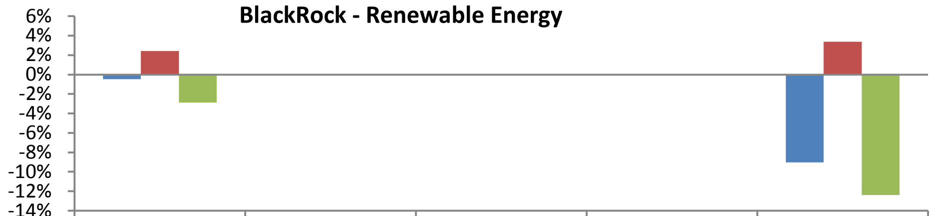
13.9 The manager had a slight outperformance relative to benchmark in the quarter achieving a return of 1.52% against the benchmark of 1.31%. Over the past 12 months the manager is ahead of benchmark by 0.82%, but since portfolio inception they lag behind benchmark by 1.19%. This position is improving however.



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (Aug 14)
Return	1.52%	6.54%	5.00%		4.86%
Benchmark	1.31%	5.72%	6.05%		6.05%
(Under)/Out	0.21%	0.82%	(1.05%)	0.00%	(1.19%)

BlackRock – Renewable Energy

13.10 The manager underperformed relative to benchmark in the quarter achieving a return of -0.47% against the benchmark of 2.41%. Over the past 12 months the manager is behind benchmark by 2.88%, however since portfolio inception they lag behind benchmark by 12.40%.



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (May 17)
Return	-0.47%				-9.03%
Benchmark	2.41%				3.37%
(Under)/Out	(2.88%)	0.00%	0.00%	0.00%	(12.40%)

<u>Investment Related Update</u>

14. Pooling (London CIV)

14.1. The Fund was one of the early investors in the London CIV (LCIV). As previously notified the Fund has achieved fee savings in the region of £130k based as a result of being part of the LCIV.

14.2. The LCIV continues with its programme of opening sub funds and recruiting fund managers to operate these sub funds. In setting up the single manager sub funds, LCIV will prioritise commonality of mandates among its members; quantum of assets under management; and conviction of funds in the manager. To this end, the procurement of active global equities managers and multi asset managers is currently being undertaken. Ten sub funds have currently been set up, with more expected to follow shortly for a range of fixed income products. The CIV now has offerings in a number of global equity and multi asset or diversified growth fund products.

14.3. In September 2017, the Fund appointed its first manager via the London CIV: Ruffer to manage a multi asset absolute return strategy, comprising 7.5% of the Haringey Fund’s total assets or £100m. This investment was completed in December 2017, and will be shown on the next quarterly update report covering the quarter to December 2017.

15. Aviva Long Lease Property Mandate

15.1. The Committee at its meeting on 11 April 2016 approved the investment of £50m in the Aviva Long Lease Property Fund. Following submission and completion of the ‘know your client’ due diligence process by Aviva, the fund has now been approved by the trustees of the Fund to join the queue of investors waiting to invest in the Fund.

15.2. Members may recall that the waiting time to invest had moved from the initial range of 6-9 months that was pitched to the Committee during the selection process. Although, Aviva's deal pipe is strong with the team working on "a lot of deals", the pace of decision making within counterparties that Aviva are dealing with has slowed down the investment process. Currently, there is £270m of committed funds ahead of LB Haringey in the queue. Aviva have confirmed that funding commitment from LB Haringey will likely be drawn down in Q1 or Q2 of 2018. However, officers note that this is the same position that has been reported for nearly a year now, and the timing regarding the likely drawdown keeps slipping forward. Consequently, the Head of Pensions and Independent Advisor have agreed that they should now seek a meeting with Aviva to seek to further understand the situation.

Appendix 1 – Strategic Asset Allocation (as at 30.09.17)

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	67.5%	Global Equities & Bonds	See overleaf	Index (passively managed)
CQS	7.0%	Multi Sector Credit	3 month LIBOR + 5.0% p.a.	Benchmark
Allianz	3.0%	Infrastructure Debt	5.5% p.a.	Benchmark
CBRE Global Investors	7.5%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5.0%	Private Equity	MSCI World Index plus 3.5%	Benchmark
Aviva	5.0%	Long Lease Property	50% FTSE Actuaries 5-15 Year Gilt Index 50% FTSE 15 Years + Gilt Index*	+1.50% p.a. over the medium to long term
Copenhagen Investment Partners	2.5%	Renewable Energy	10.0% p.a.	Benchmark
Blackrock	2.5%	Renewable Energy	10.0% p.a.	Benchmark
Total	**100.0%**			

* The Fund invests in the Aviva Lime Property Fund, which invests in a diversified portfolio of UK Real Estate assets with long leases and strong covenants. The official performance objective is to outperform the composite benchmark in the table above by 1.5% over the medium to long term. In practice, the shorter term performance of the benchmark has the scope to perform very differently to the underlying property assets. Over shorter periods (less than 5 years), the Officers will assess the performance of this part of the portfolio on a total return basis, whereby around 60% to 80% of this is expected to be derived from rental income (with capital appreciation being the balance).

Asset Class	Benchmark	Legal & General Investment Management
UK Equities	FTSE All Share	6.60%
North America	FT World Developed North America Index (Unhedged)	4.80%
North America	FT World Developed North America Index (Hedged)	4.80%
Europe ex UK	FT World Developed Europe ex-UK Index (Unhedged)	1.60%
Europe ex UK	FT World Developed Europe ex-UK Index (Hedged)	1.60%
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index (Unhedged)	0.75%
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index (Hedged)	0.75%
Japan	FTSE Japan Index (Unhedged)	0.75%
Japan	FTSE Japan Index (Hedged)	0.75%
Emerging Markets	FTSE Emerging Markets Index (Unhedged)	7.80%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Unhedged)	11.15%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Hedged)	11.15%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.00%
Total L&G		**67.50%**